



Legislative Audit Division

State of Montana

Report to the Legislature

January 2004

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2003

Board of Regents and Office of the Commissioner of Higher Education

This report contains three recommendations regarding compliance with state law. Major issues addressed in the report include:

- ▶ Transfers made out of the General Fund without proper appropriation.
- ▶ Accumulation of unreverted General Fund appropriation.

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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Room 160, State Capitol
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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

January 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2003. This report contains three recommendations where OCHE should comply with state law. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and her staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

Signature on file

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Board of Regents and Office of the Commissioner of Higher Education

Members of the audit staff involved in this audit were Chris Darragh and Joyce Weber.

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Appointed and Administrative Officials

Board of Regents of Higher Education			<u>Term Expires</u>
	Ed Jasmin, Chair	Bigfork	Feb. 1, 2004
	Christian Hur, Student Regent, Vice Chair	Billings	June 30, 2004
	John Mercer	Polson	Feb. 1, 2008
	Lynn Morrison-Hamilton	Havre	Feb. 1, 2006
	Richard Roehm	Bozeman	Feb. 1, 2005
	Mark Semmens	Great Falls	Feb. 1, 2007
	Lila Taylor	Busby	Feb. 1, 2010
	Judy Martz, Governor*		
	Linda McCulloch, Superintendent of Public Instruction*		

*Ex officio member

Commissioner of Higher Education	Sheila M. Stearns, Ed. D	Commissioner of Higher Education Beginning September 1, 2003
	Rodger Barber	Acting Deputy Commissioner for Academic and Student Affairs (September 2003)
	Rod Sundsted	Associate Commissioner for Fiscal Affairs
	Laurie O. Neils	Director of Budget and Accounting

Board of Regents and Office of the Commissioner of Higher Education

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2003. The prior audit report contained three recommendations. OCHE implemented all three recommendations. The three recommendations in this report relate to complying with state laws.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the information presented in the financial schedules and the supporting information on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, OCHE's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend that OCHE comply with state law and not pay state funds where it has no obligation for such payments..... 6

Board/Office Response: Concur. See page B-4

Recommendation #2

We recommend OCHE and the Board of Regents modify the Board of Regents policy for OCHE regarding Retirement Costs Revolving Accounts to comply with state law..... 7

Board/Office Response: Concur. See page B-4

Recommendation #3

We recommend the board comply with state law by adopting rules to implement compliance with the Military Selective Service Act. 8

Board/Office Response: Concur. See page B-4

Introduction

Introduction

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2003. The objectives of our audit were to:

1. Determine OCHE and the Board's compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvements in OCHE and the Board's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if OCHE and the Board's financial schedules are fairly presented for the two fiscal years ended June 30, 2003.

The Montana Guaranteed Student Loan Program, which is part of OCHE, allows eligible students to receive guaranteed loans from lending institutions for post-secondary education. The program is audited annually by our office (#02-06 and #03-06).

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have significant effect on the successful operations of OCHE are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of internal service fund fees and fund equity balances at OCHE. OCHE has one internal service fund, the Montana University System (MUS) group insurance program. We reviewed the internal service fund activity and determined the rates are commensurate with costs and the fund equity balance is reasonable.

Introduction

Background

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the Board of Regents of Higher Education to govern and control the Montana University System. The board has administrative and supervisory control of the units of the university system and general supervision of community colleges. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and the Superintendent of Public Instruction are ex officio members of the board.

Office of the Commissioner of Higher Education

As required by Article X of the Montana Constitution, the board appoints a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for providing leadership, technical assistance, and staff support to the board and the units of the university system. Duties of the Office of the Commissioner of Higher Education include academic planning and curriculum review, budgetary planning and control, legal services and labor negotiation policies and procedures. Total authorized full-time equivalent (FTE) staff for OCHE was 96.57 FTE during the audit period. These FTE include 18.4 FTE funded by the General Fund for general administration and operations, and 74.17 FTE for federal grant operations, of which 49.2 FTE are for the Guaranteed Student Loan program. The office was accounted for in 11 programs in fiscal year 2002-03 as shown on the financial schedule on page A-9. Fiscal year 2001-02 had one additional program, the Tribal College Assistance Program, as shown on the financial schedule on page A-10. The funds available for this program were fully distributed to the tribal colleges. A brief discussion of the current programs follows:

Administration Program - provides general administration for all the duties of the office. This includes academic, student assistance, financial, and legal administration as well as labor relations and personnel administration.

Board of Regents Administration - consists of the costs associated with the operation of the board.

Student Assistance Program - consists of the Western Interstate Commission on Higher Education (WICHE) student exchange program; the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) cooperative medical program; the Leveraging Educational Assistance Partnership (LEAP) program; the Perkins Loan Fund match program; state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG); the Montana Work Study Program; the Montana Tuition Assistance Program (MTAP); and the Baker Grants.

Guaranteed Student Loan Program - processes loan applications, maintains records on student borrowers, warehouses records, collects loan payments and performs other duties related to the Federal Family Education Loan program.

MUS Group Insurance Program - accounts for all activity related to the Montana University System employee benefits program and flexible spending plan.

Work Force Development Program - the Board of Regents is designated as the sole state agency for the federal Vocational Education - Basic Grants to States, formerly known as the Carl D. Perkins program. This program supports vocational education at the secondary and post secondary level.

Dwight D. Eisenhower Mathematics & Science Education Act - is a federal program that provides funds to upgrade the teaching skills of teachers in the mathematics and science disciplines. Grants are awarded to institutions of Higher Education within the state on a competitive basis.

Talent Search - is a federally funded program to provide career and financial aid counseling to selected students. It includes General Fund support for an American Indian/Minority Achievement

Introduction

program. It also includes the federally funded Gaining Early Awareness and Readiness for Undergraduate Program (GEAR-UP).

Appropriation Distribution - is the distribution of the state's General Fund and millage appropriations to the university units.

Community College Assistance - is the distribution of the state's assistance to the three community colleges.

Agency Fund - accounts for the OCHE Wellness program activity.

Prior Audit Recommendations

We performed the audit of the Board of Regents and Office of the Commissioner of Higher Education (OCHE) for the two fiscal years ended June 30, 2001. The 2001 report contained three recommendations. OCHE implemented all three recommendations.

Findings and Recommendations

General Fund Appropriation Transfers

In House Bill 2, Chapter 572, of the 2001 Legislative Session, the legislature authorized the Department of Natural Resources and Conservation (DNRC) to make a debt service payment of \$38,000 to the Montana Science Institute (Institute), a private entity. The Institute made some repairs on a facility owned by the State of Montana and the legislative intent was to reimburse the Institute for these repairs. However, DNRC did not have a debt with the Institute so it could not use the debt service appropriation to pay the Institute. DNRC needed the authority to make a capital outlay or an operating expenditure payment, not a debt service payment, in order to properly record this transaction.

The Office of the Commissioner of Higher Education (OCHE) was contacted to assist DNRC in paying the Institute. According to OCHE staff, since OCHE and DNRC did not have the appropriation authority to transmit funds to the Institute, the Office of Budget and Program Planning (OBPP), in conjunction with the Department of Administration, suggested that funds be transmitted to one of the University System campuses, since they are “off the state budget system.” OCHE acquired an intercap loan from the Board of Investments and the proceeds were transmitted directly to the Helena College of Technology (HCOT), which then made the payment to the Institute. DNRC transferred its appropriation authority through a Budget Change Document (BCD) to OCHE to pay off the \$38,000 intercap loan.

The payment to the Institute through the HCOT did not go through the state budgeting system and controls. The HCOT had no business interest in the Institute, and should not have recorded an expenditure on its records. Section 17-8-101, MCA, states, “money deposited in the general fund, may be paid out of the treasury only on appropriation made by law.” Under House Bill 2 of the 2001 session, the only appropriation authority granted was for DNRC to make a debt service payment to reimburse the Institute. A Budget Change Document was approved by OBPP to transfer the

Findings and Recommendations

appropriation authority from DNRC to OCHE. OCHE reports the expenditure for the debt service payment on its Schedule of Expenditures & Transfers-Out for 2003, resulting in OCHE's expenditures being overstated by \$38,000. Because the HCOT had no liability to the Institute, its expenditures are also overstated by \$38,000.

Even though the BCD was approved by the OBPP, the payments by OCHE and HCOT were not made for liabilities of those entities, and as such, they violated section 17-8-101, MCA.

Recommendation #1

We recommend that OCHE comply with state law and not pay state funds where it has no obligation for such payments.

Board Policy Contrary to State Law

The Board of Regents policy allowing the transfer of unspent funds to a Designated Subfund for the future use of OCHE violated section 17-2-102, MCA. This section establishes the treasury fund structure for the State of Montana. OCHE financial activities are appropriately recorded in the governmental funds portion of the treasury fund structure. Because the Designated Subfund is part of the higher education funds portion of the treasury fund structure, it is not available for recording OCHE activity. OCHE should work with the Board of Regents to eliminate this policy's provisions which conflict with state law.

During fiscal year 2002-03, OCHE, anticipating multiple retirements during fiscal years 2003-04 and 2004-05, transferred \$151,975 of General Fund appropriation from the student assistance program to The University of Montana (U of M) Designated Subfund. OCHE transferred the money based on the Board of Regents policy authorizing the university campuses and OCHE to establish Retirement Costs Revolving Accounts in the Designated Subfund. The board policy states, in part, "The campuses, agencies and Commissioner's Office of the Montana University system are authorized to establish 'Retirement Costs Revolving Accounts' in

Findings and Recommendations

the Designated Subfund for the purpose of managing the General Operating Subfund Costs of employee retirement payouts.” OCHE transferred the funds to U of M to enable the funds to be recorded in a Designated Subfund. Because OCHE falls under the governmental fund category, not the higher education fund structure, it could not record this transfer in a Designated Subfund of its own. Based on section 17-2-102, MCA, the funds recorded in the university Designated Subfund cannot be used for activity at OCHE in the future.

Recommendation #2

We recommend OCHE and the Board of Regents modify the Board of Regents policy for OCHE regarding Retirement Costs Revolving Accounts to comply with state law.

Adopt Rules

Section 20-1-225 (2), MCA, states “ The Board of Regents shall adopt rules to implement compliance with Military Selective Service Act for postsecondary financial assistance.” OCHE personnel told us that the board has not adopted rules, but rules for registering with the Selective Service and receiving financial assistance do exist at the university level. The Board of Regents has administrative and supervisory control of the units of the university system. Adopting rules at the board level would ensure consistency between all units of the university system.

Recommendation #3

We recommend the board comply with state law by adopting rules to implement compliance with the Military Selective Service Act.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education and Board of Regents for each of the fiscal years ended June 30, 2003, and 2002. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of the Commissioner of Higher Education and the Board of Regents for each of the fiscal years ended June 30, 2003, and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

Signature on file

James Gillett, CPA
Deputy Legislative Auditor

October 14, 2003

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2002	\$ <u>(137,329)</u>	\$ <u>412,012</u>	\$ <u>14,079,473</u>	\$ <u>253,937</u>	\$ <u>4,976,470</u>	
PROPERTY HELD IN TRUST: July 1, 2002						\$ <u>26,764</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	924,295	106,495	35,122,185	3,122,974	38,825,715	
NonBudgeted Revenues & Transfers-In	493	150,881	821,884			
Prior Year Revenues & Transfers-In Adjustments	(2,047)		306,068			
Cash Transfers In(Out)						
Direct Entries to Fund Balance	133,998,276	13,047,134	4,713	13,500		
Additions to Property Held in Trust						3,200
Total Additions	<u>134,921,017</u>	<u>13,304,510</u>	<u>36,254,850</u>	<u>3,136,474</u>	<u>38,825,715</u>	<u>3,200</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	134,836,811	13,668,583	40,089,341	3,084,135	35,887,515	
NonBudgeted Expenditures & Transfers-Out		131,189	820,347	13,779	58,810	
Prior Year Expenditures & Transfers-Out Adjustments			(9,338)	100,000	(54,149)	
Reductions in Property Held in Trust						29,964
Total Reductions	<u>134,836,811</u>	<u>13,799,772</u>	<u>40,900,350</u>	<u>3,197,914</u>	<u>35,892,176</u>	<u>29,964</u>
FUND BALANCE: June 30, 2003	\$ <u>(53,123)</u>	\$ <u>(83,250)</u>	\$ <u>9,433,973</u>	\$ <u>192,497</u>	\$ <u>7,910,009</u>	
PROPERTY HELD IN TRUST: June 30, 2003						\$ <u>0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>University Agency Fund</u>
FUND BALANCE: July 1, 2001	\$ 6,449	\$ 200,237	\$ 14,299,613	\$ 135,444	\$ 5,495,234		
PROPERTY HELD IN TRUST: July 1, 2001						\$ 29,195	\$ 0
ADDITIONS							
Budgeted Revenues & Transfers-In	949,820	115,783	40,497,401	2,742,900	33,921,674		
NonBudgeted Revenues & Transfers-In	1,188	257,036	337		473	(60)	
Prior Year Revenues & Transfers-In Adjustments					149,769	60	
Direct Entries to Fund Balance	137,752,859	13,215,662					
Additions to Property Held in Trust						2,455	12,790
Total Additions	<u>138,703,867</u>	<u>13,588,481</u>	<u>40,497,738</u>	<u>2,742,900</u>	<u>34,071,916</u>	<u>2,455</u>	<u>12,790</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	138,847,645	13,296,275	40,726,894	2,624,407	34,533,527		
NonBudgeted Expenditures & Transfers-Out		82,284	2,425		(533)		
Prior Year Expenditures & Transfers-Out Adjustments		(1,853)	(11,441)		57,686		
Reductions in Property Held in Trust						4,886	12,790
Total Reductions	<u>138,847,645</u>	<u>13,376,706</u>	<u>40,717,878</u>	<u>2,624,407</u>	<u>34,590,680</u>	<u>4,886</u>	<u>12,790</u>
FUND BALANCE: June 30, 2002	\$ (137,329)	\$ 412,012	\$ 14,079,473	\$ 253,937	\$ 4,976,470		
PROPERTY HELD IN TRUST: June 30, 2002						\$ 26,764	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 882,433		\$ 1,892				\$ 884,325
Charges for Services		\$ 97,264	25,716,505				25,813,769
Investment Earnings		9,232	124,662		\$ 144,236		278,130
Contributions and Premiums				\$ 3,122,974	38,467,443		41,590,417
Miscellaneous					214,036		214,036
Grants, Contracts, Donations and Abandonments		1,795					1,795
Other Financing Sources		149,085	1,386,313				1,535,398
Federal			9,020,765				9,020,765
Federal Indirect Cost Recoveries	40,308						40,308
Total Revenues & Transfers-In	<u>922,741</u>	<u>257,376</u>	<u>36,250,137</u>	<u>3,122,974</u>	<u>38,825,715</u>	<u>0</u>	<u>79,378,943</u>
Less: Nonbudgeted Revenues & Transfers-In	493	150,881	821,884				973,258
Prior Year Revenues & Transfers-In Adjustments	(2,047)		306,068				304,021
Actual Budgeted Revenues & Transfers-In	<u>924,295</u>	<u>106,495</u>	<u>35,122,185</u>	<u>3,122,974</u>	<u>38,825,715</u>	<u>0</u>	<u>78,101,664</u>
Estimated Revenues & Transfers-In	1,116,000	724,481	54,594,001	3,898,000	45,666,000	500,000	106,498,482
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (191,705)</u>	<u>\$ (617,986)</u>	<u>\$ (19,471,816)</u>	<u>\$ (775,026)</u>	<u>\$ (6,840,285)</u>	<u>\$ (500,000)</u>	<u>\$ (28,396,818)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (116,014)						\$ (116,014)
Charges for Services			\$ (12,176,778)				(12,176,778)
Investment Earnings		\$ (17,986)	(432,800)		\$ (255,764)	\$ (500,000)	(1,206,550)
Contributions and Premiums				\$ (775,026)	(6,648,557)		(7,423,583)
Miscellaneous					64,036		64,036
Grants, Contracts, Donations and Abandonments							
Other Financing Sources	(38,000)	(600,000)	(534,032)				(1,172,032)
Federal			(6,328,206)				(6,328,206)
Federal Indirect Cost Recoveries	(37,691)						(37,691)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (191,705)</u>	<u>\$ (617,986)</u>	<u>\$ (19,471,816)</u>	<u>\$ (775,026)</u>	<u>\$ (6,840,285)</u>	<u>\$ (500,000)</u>	<u>\$ (28,396,818)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 919,262				\$ 32		\$ 919,294
Charges for Services		\$ 96,600	\$ 28,514,025				28,610,625
Investment Earnings		19,219	376,863		234,984		631,066
Contributions and Premiums				\$ 2,742,900	33,600,987		36,343,887
Miscellaneous	538				235,913		236,451
Other Financing Sources		257,000					257,000
Federal			11,606,850				11,606,850
Federal Indirect Cost Recoveries	31,208						31,208
Total Revenues & Transfers-In	<u>951,008</u>	<u>372,819</u>	<u>40,497,738</u>	<u>2,742,900</u>	<u>34,071,916</u>	<u>0</u>	<u>78,636,381</u>
Less: Nonbudgeted Revenues & Transfers-In	1,188	257,036	337		473	(60)	258,974
Prior Year Revenues & Transfers-In Adjustments					149,769	60	149,829
Actual Budgeted Revenues & Transfers-In	<u>949,820</u>	<u>115,783</u>	<u>40,497,401</u>	<u>2,742,900</u>	<u>33,921,674</u>	<u>0</u>	<u>78,227,578</u>
Estimated Revenues & Transfers-In	<u>1,040,000</u>	<u>888,412</u>	<u>48,035,124</u>	<u>3,380,000</u>	<u>38,269,000</u>	<u>500,000</u>	<u>92,112,536</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (90,180)</u>	<u>\$ (772,629)</u>	<u>\$ (7,537,723)</u>	<u>\$ (637,100)</u>	<u>\$ (4,347,326)</u>	<u>\$ (500,000)</u>	<u>\$ (13,884,958)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (81,388)						\$ (81,388)
Charges for Services		\$ (1,824)	\$ (6,410,975)				(6,412,799)
Investment Earnings		(13,805)	(133,474)		\$ (165,456)	\$ (500,000)	(812,735)
Contributions and Premiums				\$ (637,100)	(4,039,413)		(4,676,513)
Miscellaneous					(142,457)		(142,457)
Other Financing Sources		(757,000)					(757,000)
Federal			(993,274)				(993,274)
Federal Indirect Cost Recoveries	(8,792)						(8,792)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (90,180)</u>	<u>\$ (772,629)</u>	<u>\$ (7,537,723)</u>	<u>\$ (637,100)</u>	<u>\$ (4,347,326)</u>	<u>\$ (500,000)</u>	<u>\$ (13,884,958)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	AGENCY FUNDS	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS- ADMINISTRATION	COMMUNITY COLLEGE ASSISTANCE	EISENHOWER MATH & SCIENCE EDUCATION ACT	GUARANTEED STUDENT LOAN PROGRAM	UNIVERSITY SYSTEM GROUP INSURANCE PROGRAM	R05	STUDENT ASSISTANCE PROGRAM	TALENT SEARCH	WORK FORCE DEVELOPMENT PROGRAM	Total
Personal Services													
Salaries	\$ 963,493					\$ 146	\$ 1,418,756	\$ 124,127			\$ 595,713	\$ 180,466	\$ 3,282,701
Hourly Wages	600												600
Other Compensation				\$ 6,750									6,750
Employee Benefits	211,342					32	443,994	34,596			172,813	49,202	911,979
Personal Services-Other		\$ 9						4,661					4,670
Total	<u>1,175,435</u>	<u>9</u>		<u>6,750</u>		<u>178</u>	<u>1,862,750</u>	<u>163,384</u>			<u>768,526</u>	<u>229,668</u>	<u>4,206,700</u>
Operating Expenses													
Other Services	60,254	7,255	\$ 58,364	801			1,818,364	2,705,648	\$ 21,707		70,396	6,656	4,749,445
Supplies & Materials	14,053	4,437	709	1,616		0	95,462	4,787			46,316	41,998	209,378
Communications	26,828			1,173		751	180,842	1,897			20,161	5,627	237,279
Travel	25,294			22,377			94,019	2,296			95,195	38,594	277,775
Rent	96,165	2,078					212,881	980			170	1,780	314,054
Utilities	12,859						19,313						32,172
Repair & Maintenance	25,444						26,547	412			656	78	53,137
Other Expenses	29,818			7,948		300	6,294,221	316,256			463,726	14,638	7,126,907
Total	<u>290,715</u>	<u>13,770</u>	<u>59,073</u>	<u>33,915</u>		<u>1,051</u>	<u>8,741,649</u>	<u>3,032,276</u>	<u>21,707</u>		<u>696,620</u>	<u>109,371</u>	<u>13,000,147</u>
Equipment & Intangible Assets													
Equipment							(3,518)						(3,518)
Total							<u>(3,518)</u>						<u>(3,518)</u>
Local Assistance													
From State Sources					\$ 5,724,430					\$ 103,000			5,827,430
Total					<u>5,724,430</u>					<u>103,000</u>			<u>5,827,430</u>
Grants													
From State Sources										8,259,295			8,259,295
From Federal Sources						155,757					818,191	2,194,179	3,168,127
From Other Sources										193,665			193,665
Total						<u>155,757</u>				<u>8,452,960</u>	<u>818,191</u>	<u>2,194,179</u>	<u>11,621,087</u>
Benefits & Claims													
Insurance Payments							20,407,292	35,858,954					56,266,246
Total							<u>20,407,292</u>	<u>35,858,954</u>					<u>56,266,246</u>
Transfers													
Accounting Entity Transfers	151,975		132,579,716				886,096				549,302	3,399,352	137,566,441
Total	<u>151,975</u>		<u>132,579,716</u>				<u>886,096</u>				<u>549,302</u>	<u>3,399,352</u>	<u>137,566,441</u>
Debt Service													
Bonds	38,000												38,000
Loans	104,500												104,500
Total	<u>142,500</u>												<u>142,500</u>
Total Expenditures & Transfers-Out	<u>\$ 1,760,625</u>	<u>\$ 13,779</u>	<u>\$ 132,638,789</u>	<u>\$ 40,665</u>	<u>\$ 5,724,430</u>	<u>\$ 156,986</u>	<u>\$ 31,894,269</u>	<u>\$ 39,054,614</u>	<u>\$ 21,707</u>	<u>\$ 8,555,960</u>	<u>\$ 2,832,639</u>	<u>\$ 5,932,570</u>	<u>\$ 228,627,033</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 1,629,434		\$ 119,163,873	\$ 40,665	\$ 5,724,430					\$ 8,113,828	\$ 85,783	\$ 78,798	\$ 134,836,811
State Special Revenue Fund	131,191		13,474,916							193,665			13,799,772
Federal Special Revenue Fund						\$ 156,986	\$ 31,894,269			248,467	2,746,856	5,853,772	40,900,350
Enterprise Fund		\$ 13,779						\$ 3,162,438	\$ 21,707				3,197,924
Internal Service Fund								35,892,176					35,892,176
Total Expenditures & Transfers-Out	<u>1,760,625</u>	<u>13,779</u>	<u>132,638,789</u>	<u>40,665</u>	<u>5,724,430</u>	<u>156,986</u>	<u>31,894,269</u>	<u>39,054,614</u>	<u>21,707</u>	<u>8,555,960</u>	<u>2,832,639</u>	<u>5,932,570</u>	<u>228,627,033</u>
Less: Nonbudgeted Expenditures & Transfers-Out	131,189	13,779					820,347	37,104	21,707				1,024,126
Prior Year Expenditures & Transfers-Out Adjustments								45,851			(8,540)	(796)	36,515
Actual Budgeted Expenditures & Transfers-Out	<u>1,629,436</u>	<u>0</u>	<u>132,638,789</u>	<u>40,665</u>	<u>5,724,430</u>	<u>156,986</u>	<u>31,073,922</u>	<u>38,971,659</u>	<u>0</u>	<u>8,555,960</u>	<u>2,841,179</u>	<u>5,933,366</u>	<u>227,566,392</u>
Budget Authority	<u>1,630,031</u>	<u>0</u>	<u>132,834,212</u>	<u>41,447</u>	<u>5,724,430</u>	<u>506,173</u>	<u>42,139,110</u>	<u>49,331,220</u>	<u>0</u>	<u>8,692,522</u>	<u>5,072,561</u>	<u>8,306,173</u>	<u>254,277,879</u>
Unspent Budget Authority	<u>\$ 595</u>	<u>\$ 0</u>	<u>\$ 195,423</u>	<u>\$ 782</u>	<u>\$ 0</u>	<u>\$ 349,187</u>	<u>\$ 11,065,188</u>	<u>\$ 10,359,561</u>	<u>\$ 0</u>	<u>\$ 136,562</u>	<u>\$ 2,231,382</u>	<u>\$ 2,372,807</u>	<u>\$ 26,711,487</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 595		\$ 51,279	\$ 782						\$ 1	\$ 19	\$ 721	\$ 53,397
State Special Revenue Fund			144,144							136,561			280,705
Federal Special Revenue Fund						\$ 349,187	\$ 11,065,188				2,231,363	2,372,086	16,017,824
Enterprise Fund								\$ 771,138					771,138
Internal Service Fund								9,588,423					9,588,423
Unspent Budget Authority	<u>\$ 595</u>	<u>\$ 0</u>	<u>\$ 195,423</u>	<u>\$ 782</u>	<u>\$ 0</u>	<u>\$ 349,187</u>	<u>\$ 11,065,188</u>	<u>\$ 10,359,561</u>	<u>\$ 0</u>	<u>\$ 136,562</u>	<u>\$ 2,231,382</u>	<u>\$ 2,372,807</u>	<u>\$ 26,711,487</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	AGENCY FUNDS	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS- ADMINISTRATION	COMMUNITY COLLEGE ASSISTANCE	EISENHOWER MATH & SCIENCE EDUCATION ACT	GUARANTEED STUDENT LOAN PROGRAM	UNIVERSITY SYSTEM GROUP INSURANCE PROGRAM	STUDENT ASSISTANCE PROGRAM	TALENT SEARCH	TRIBAL COLLEGE ASSISTANCE PROGRAM	WORK FORCE DEVELOPMENT PROGRAM	Total
Personal Services													
Salaries	\$ 862,837					\$ 379	\$ 1,247,387	\$ 116,903		\$ 552,368		\$ 217,920	\$ 2,997,794
Other Compensation				\$ 14,400			100					357	14,857
Employee Benefits	187,519					110	366,904	33,622		162,078		56,196	806,429
Personal Services-Other							(533)						(533)
Total	<u>1,050,356</u>			<u>14,400</u>		<u>489</u>	<u>1,614,391</u>	<u>149,992</u>		<u>714,446</u>		<u>274,473</u>	<u>3,818,547</u>
Operating Expenses													
Other Services	87,152	\$ 2,675		2,769			2,666,524	4,540,605		101,111		37,419	7,438,255
Supplies & Materials	9,462	(4,175)		825			65,053	4,998		69,415		43,450	189,028
Communications	28,920			436		210	150,479	2,554		21,122		10,163	213,884
Travel	33,951			32,026			92,628	2,078		71,068		85,707	317,458
Rent	91,879	1,405					159,871	500		25		6,334	260,014
Utilities	11,798						20,895						32,693
Repair & Maintenance	21,101	95					36,981	411				512	59,100
Other Expenses	<u>35,923</u>			<u>6,687</u>			<u>927,359</u>	<u>297,287</u>		<u>595,170</u>		<u>16,412</u>	<u>1,878,838</u>
Total	<u>320,186</u>	<u>0</u>		<u>42,743</u>		<u>210</u>	<u>4,119,790</u>	<u>4,848,433</u>		<u>857,911</u>		<u>199,997</u>	<u>10,389,270</u>
Equipment & Intangible Assets													
Equipment							<u>9,895</u>						<u>9,895</u>
Total							<u>9,895</u>						<u>9,895</u>
Local Assistance													
From State Sources					\$ 5,843,089				\$ 99,000				5,942,089
Total					<u>5,843,089</u>				<u>99,000</u>				<u>5,942,089</u>
Grants													
From State Sources									8,312,812		\$ 96,500		8,409,312
From Federal Sources						146,079				1,243,507		2,824,076	4,213,662
From Other Sources									<u>154,639</u>				<u>154,639</u>
Total						<u>146,079</u>			<u>8,467,451</u>	<u>1,243,507</u>	<u>96,500</u>	<u>2,824,076</u>	<u>12,777,613</u>
Benefits & Claims													
Insurance Payments							<u>23,340,270</u>	<u>32,216,662</u>					<u>55,556,932</u>
Total							<u>23,340,270</u>	<u>32,216,662</u>					<u>55,556,932</u>
Transfers													
Accounting Entity Transfers			\$ 136,226,232										
Total			<u>136,226,232</u>									<u>5,352,253</u>	<u>141,578,485</u>
Debt Service													
Bonds	<u>84,485</u>												<u>84,485</u>
Total	<u>84,485</u>												<u>84,485</u>
Total Expenditures & Transfers-Out	\$ <u>1,455,027</u>	\$ <u>0</u>	\$ <u>136,226,232</u>	\$ <u>57,143</u>	\$ <u>5,843,089</u>	\$ <u>146,778</u>	\$ <u>29,084,346</u>	\$ <u>37,215,087</u>	\$ <u>8,566,451</u>	\$ <u>2,815,864</u>	\$ <u>96,500</u>	\$ <u>8,650,799</u>	\$ <u>230,157,316</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 1,372,743		\$ 123,086,449	\$ 57,143	\$ 5,843,089				\$ 8,242,605	\$ 83,838	\$ 96,500	\$ 65,278	\$ 138,847,645
State Special Revenue Fund	82,284		13,139,783						154,639				13,376,706
Federal Special Revenue Fund						\$ 146,778	\$ 29,084,346		169,207	2,732,026		8,585,521	40,717,878
Enterprise Fund								\$ 2,624,407					2,624,407
Internal Service Fund								<u>34,590,680</u>					<u>34,590,680</u>
Total Expenditures & Transfers-Out	<u>1,455,027</u>		<u>136,226,232</u>	<u>57,143</u>	<u>5,843,089</u>	<u>146,778</u>	<u>29,084,346</u>	<u>37,215,087</u>	<u>8,566,451</u>	<u>2,815,864</u>	<u>96,500</u>	<u>8,650,799</u>	<u>230,157,316</u>
Less: Nonbudgeted Expenditures & Transfers-Out	82,284						2,425	(533)					84,176
Prior Year Expenditures & Transfers-Out Adjustments						(71,044)	(18,247)	57,686	(1,853)	(147,271)		225,121	44,392
Actual Budgeted Expenditures & Transfers-Out	<u>1,372,743</u>		<u>136,226,232</u>	<u>57,143</u>	<u>5,843,089</u>	<u>217,822</u>	<u>29,100,168</u>	<u>37,157,934</u>	<u>8,568,304</u>	<u>2,963,135</u>	<u>96,500</u>	<u>8,425,678</u>	<u>230,028,748</u>
Budget Authority	<u>1,377,650</u>		<u>136,612,032</u>	<u>59,923</u>	<u>5,843,089</u>	<u>315,346</u>	<u>34,727,362</u>	<u>41,228,558</u>	<u>8,680,346</u>	<u>3,692,557</u>	<u>100,000</u>	<u>9,990,705</u>	<u>242,627,568</u>
Unspent Budget Authority	\$ <u><u>4,907</u></u>	\$ <u><u>0</u></u>	\$ <u><u>385,800</u></u>	\$ <u><u>2,780</u></u>	\$ <u><u>0</u></u>	\$ <u><u>97,524</u></u>	\$ <u><u>5,627,194</u></u>	\$ <u><u>4,070,624</u></u>	\$ <u><u>112,042</u></u>	\$ <u><u>729,422</u></u>	\$ <u><u>3,500</u></u>	\$ <u><u>1,565,027</u></u>	\$ <u><u>12,598,820</u></u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 4,907		\$ 154,335	\$ 2,780					\$ 17,785	\$ 4	\$ 3,500	\$ 16,968	\$ 200,279
State Special Revenue Fund			231,465						93,350				324,815
Federal Special Revenue Fund						\$ 97,524	\$ 5,627,194		907	729,418		1,548,059	8,003,102
Enterprise Fund								\$ 735,875					735,875
Internal Service Fund								<u>3,334,749</u>					<u>3,334,749</u>
Unspent Budget Authority	\$ <u><u>4,907</u></u>	\$ <u><u>0</u></u>	\$ <u><u>385,800</u></u>	\$ <u><u>2,780</u></u>	\$ <u><u>0</u></u>	\$ <u><u>97,524</u></u>	\$ <u><u>5,627,194</u></u>	\$ <u><u>4,070,624</u></u>	\$ <u><u>112,042</u></u>	\$ <u><u>729,422</u></u>	\$ <u><u>3,500</u></u>	\$ <u><u>1,565,027</u></u>	\$ <u><u>12,598,820</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

The Office of the Commissioner of Higher Education and Board of Regents

Notes to the Financial Schedules for the Two Fiscal Years Ended June 30, 2003

1. Summary of Significant Accounting Policies

Basis of Accounting

The Office of the Commissioner of Higher Education (OCHE) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Fund category. In applying the modified accrual basis, OCHE records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when it incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires OCHE to record the cost of employees' annual leave and sick leave when used or paid.

OCHE uses the accrual basis of accounting for the Proprietary and Fiduciary Fund categories. Under the accrual basis, as defined by state accounting policy, OCHE records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though OCHE receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

OCHE accounts are organized in funds according to state law applicable at the time transactions were recorded. The OCHE uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund. OCHE includes funds appropriated for general operations of the office and distributions to the university units and community colleges for their general operations.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the university units.

Federal Special Revenue Fund - to account for funds received from federal sources that are used for the operations of the office. These include the Federal Family Education Loan program, the Vocational Education – Basic Grants to States (formally Carl D. Perkins) grant, and GEAR-UP.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that OCHE finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Fund consists of the Montana State Fund Scholarships, the Montana University System's (MUS) Flexible Spending Account, and the Wellness Program. The Wellness Program was moved from the Agency Fund (Fiduciary Fund Category) to the Enterprise Fund in fiscal year 2002-03.

Internal Service Fund - to account for the financing of goods or services provided by one agency or department to another department or agency of state government or to other governmental entities on a cost-reimbursement basis. The MUS group health

Notes to the Financial Schedules

insurance plan is accounted for in this fund. The MUS Group Benefits Plan was authorized by the Board of Regents to provide medical coverage to employees of the university system, as well as their dependents, retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) members. Beginning July 1, 1990, the MUS Group Benefit Plan was fully self-insured.

Fiduciary Fund Category

Agency Fund - to account for assets held by the state in a custodial capacity. OCHE fiduciary funds include Agency Funds related to college license plates, optional retirement funds, and Guaranteed Student Loan collections.

University Agency Fund - During fiscal year 2001-02, Montana State University-Billings did not change OCHE's business unit to its own when recording an inter-unit journal. This resulted in MSU-Billings agency fund activity being recorded on OCHE's Schedule of Changes in Fund Balances & Property Held in Trust under the column titled University Agency Fund.

2. General Fund Balance

OCHE has authority to pay obligations from the statewide General Fund within its appropriation limits. OCHE's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the two fiscal years ended June 30, 2002, and June 30, 2003. These balances reflect activity at the OCHE and not the fund balance of the statewide General Fund.

3. State Special Revenue Fund Direct Entries to Fund Balance

Section 20-25-423, MCA, levies property taxes to support, maintain, and improve the Montana University System. The state treasurer collects university property tax revenue and records it in a State Special Revenue Fund of the Department of Revenue. These collections appear on OCHE's financial schedules as Direct Entries to Fund Balance in the State Special Revenue Fund totaling \$13,215,662 and \$13,047,134 in fiscal years 2001-02 and 2002-03, respectively.

4. Expenditures with R05 (subclass)

During fiscal year 2002-03, there was one expenditure transaction recorded using a revenue subclass rather than an expenditure subclass. The entry was in relation to the MUS group insurance and

Notes to the Financial Schedules

is shown on the fiscal year 2002-03 Schedule of Total Expenditures & Transfers-Out under the column title R05. This transaction should have been charged to the Montana University System (MUS) group insurance program.

5. **Work Force Development Program**

OCHE recorded expenditures of the Vocational Education - Basic Grants to States funds of \$5,341,894 and \$5,320,240 in fiscal years 2002-03 and 2001-02, respectively. OCHE contracted with the Office of Public Instruction (OPI) to manage the portion of these funds provided to secondary schools and transferred \$3,272,453 and \$3,382,769 during fiscal years 2001-02 and 2002-03, respectively, to OPI for this purpose.

6. **General Fund Appropriations**

House Bill 2, Chapter 572, Laws of 2001, appropriated General Fund moneys to the OCHE for distribution to the units of the university system and the community colleges. OCHE accounts for this activity in the General Fund as Direct Entries to Fund Balance, Accounting Entity Transfers to universities in the Appropriations Distribution Program, and Local Assistance from State Sources to community colleges in the Community College Assistance Program.

7. **Related Party Transactions**

OCHE and the Montana Higher Education Student Assistance Corporation (MHESAC) both have lease agreements with Lewis and Clark County for the building in which they are located. OCHE has an agreement with MHESAC to share certain costs associated with the building. OCHE's Montana Guaranteed Student Loan Program (MGSLP) also has an agreement with MHESAC for the lease of computer equipment and the supplies and personal services related to the computer system. OCHE paid MHESAC \$471,006 and \$542,947 in fiscal years 2001-02 and 2002-03, respectively. The MGSLP receives certain services from state agencies that directly benefit the MHESAC. The MHESAC reimbursed OCHE \$598,558 and \$214,535 in fiscal years 2001-02 and 2002-03, respectively, for these services. OCHE accounted for MHESAC's reimbursements as expenditure reductions.

Board/Office Response

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MONTANA UNIVERSITY SYSTEM
Office of the Commissioner of Higher Education **LEGISLATIVE AUDIT DIV.**

2500 Broadway ♦ PO Box 203101 ♦ Helena, Montana 59620-3101 ♦ (406)444-6570 ♦ FAX (406)444-1469

December 22, 2003

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 2003. We concur with the recommendations.

We wish to thank you and your staff for working with the Office of the Commissioner to improve our compliance with State laws and improve our fiscal operations. We have drafted changes to Board policy that will be submitted at the January meeting. These changes will correct the deficiencies in compliance with State statutes that were noted in our audit report. Thank you, not only for the assistance with this audit, but for all the good counsel and professional courtesy that you, Jim Gillett, and your staff have provided to me personally over the years of my employment with the State of Montana.

Sincerely,

A handwritten signature in cursive script that reads "Laurie O. Neils".

Laurie O. Neils
Director of Budget and Accounting

Enclosures

RECOMMENDATION #1

- A. We recommend that OCHE comply with state law and not pay state funds where it has no obligation for such payment.

AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education was asked by a number of parties to help the Montana Science Institute to get the \$38,000 that the Legislature intended them to receive. In fact, we received frantic calls from the Director of the Institute saying they had spent their own money for the repairs and they would not be able to meet their payroll if we could not help them. Although the debt of the Montana Science Institute was not a liability of the Office of the Commissioner or The University of Montana Helena College of Technology, we use the facility on occasion for student workshops and consider the facility to be a valuable State resource. OCHE was attempting assist in carrying out what seemed to be a clear legislative intent. OCHE did not gain from the transaction.

RECOMMENDATION #2

We recommend that OCHE and the Board of Regents modify the Board of Regents policy for OCHE regarding Retirement Cost Revolving Accounts to comply with state law.

AGENCY RESPONSE:

Concur.

OCHE has submitted item 122-108-R0104 to the Board of Regents for the January 2004 meeting to correct policy 901.10. The general fund transferred to The University of Montana will be used by The University for their retirement costs and will not be transferred back to OCHE.

RECOMMENDATION #3

We recommend the board comply with state law by adopting rules to implement compliance with the Military Selective Service Act.

AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education has submitted item 122-101-R0104 to create a policy related to 20-1-225 MCA. Currently all Montana University System students who accept financial aid must complete a Free Application for Federal Student Aid (FASFA) form. Male students must certify on this form whether they are registered for Selective Service. The new policy will formalize the requirement.